FINANCIAL STATEMENTS

INTRODUCTION

This is the fourteenth year the Small Business Administration (SBA) has issued agency-wide financial statements. Preparation of financial statements is a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to the SBA. Preparation of these statements is also an important part of the Agency financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources.

Extensive improvements were made to the financial statements in Fiscal Years (FY) 2003 and 2004. In FY 2003 the SBA addressed critical longstanding issues on the cost of the Disaster Program and the sale of Disaster loans as part of SBA's Loan Asset Sale Program. During FY 2003 inconsistencies and weaknesses in the budgeting and accounting for the SBA's Loan Asset Sale Program were substantially corrected. A new subsidy model was built to forecast Disaster Program costs and the FY 2003 financial statements (as restated) and footnotes accurately include the cost of the Disaster Program. During FY 2004 the SBA conducted extensive analysis of its Disaster Program account balances to verify the accuracy of its overall Disaster Program cost. This was done as part of the "balances approach" to reestimate the Disaster Program subsidy during FY 2004. This analysis resulted in restatements to the FY 2003 financial statements published in January 2004.

During FY 2003 the SBA also updated its 7(a) econometric model first used for the FY 2003 budget. In addition, during FY 2003 the Agency updated assumptions used for defaults and recoveries in its Small Business Investment Company (SBIC) Program models and built a new model for its 504 Development Company Program used for the FY 2005 budget. SBA completed this work through an aggressive approach that employed Agency as well as outside modeling experts, consultation with the Office Management and Budget (OMB) and extensive review and quality assurance by outside modeling experts. During FY 2004 substantial analysis was conducted to verify the accuracy of 7(a) and 504 Program subsidy accounts and costs in preparation for the use of the "balances approach" for FY 2004 subsidy reestimates (including restatement of FY 2003 subsidy costs and related account balances). Also during FY 2004 the SBIC subsidy cost estimates were improved through an extensive data "cleanup" and a review of the subsidy reestimate model assumptions to assure consistency with SBIC Program projections.

During FY 2003 SBA also built a new model to estimate the sufficiency of the Master Reserve Fund (MRF) to fund the Secondary Market Guarantee (SMG) to investors in 7(a) securities. Also during FY 2003 the Agency developed a new procedure to estimate the liability for guarantees for the pre-Federal Credit Reform business loan portfolio. During FY 2004 documentation of the internal controls over the MRF data was improved and the reestimate of the cost of the SMG was further refined, resulting in a restatement of the FY 2003 financial statements.

In the FY 2003 audit, our independent auditor determined that the SBA did not furnish sufficient evidence in a timely manner to support the accuracy of the Agency's credit program costs. In addition the delayed delivery of the SBA's financial statements did not leave sufficient time for the SBA's auditor to verify the final submission of the SBA's financial statements. As a result, a "disclaimed" opinion was issued on the SBA's FY 2003 financial statements. For FY 2004 the SBA has adhered to an accelerated schedule for the development and review of its financial statements. In addition SBA has improved the quality of its FY 2004 financial statements. It has provided improved documentation of the process and internal controls used in its accounting and reporting of its program and administrative costs.

The responsibility for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls rests with SBA's management. The statements are, in addition to other financial reports, used to monitor and control budgetary resources. The financial statements have been prepared from the books and records of the Agency in accordance with generally accepted accounting principals (GAAP) for Federal agencies and the formats prescribed by OMB. The Agency recognizes it cannot liquidate liabilities not covered by budgetary resources without an enactment of an appropriation by Congress and an apportionment by OMB.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Balance Sheet

The Consolidated Balance Sheet summarizes the assets, liabilities and net position as of the end of the fiscal year. For clarity in presentation, assets and liabilities have been differentiated between those resulting from transactions between Federal agencies (intragovernmental) and those resulting from transactions with non-Federal entities. Information for two years is presented for the purpose of comparison.

SBA's net position consists of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations reflects spending authority made available to SBA by congressional appropriation. Cumulative Results of Operations reflects the net results of SBA's operations over time.

Statement of Net Cost

The Consolidated Statement of Net Cost shows, by strategic goal, how much it cost SBA to provide its services for the fiscal year. Net cost is calculated by subtracting earned revenues from gross costs. SBA did not present a detailed comparative Statement of Net Cost since its strategic goals changed from FY 2003 to FY 2004.

Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position shows SBA's beginning and ending net position by two major components - Cumulative Results of Operations and Unexpended Appropriations - both of which are shown under Net Position on the Balance Sheet. The Statement of Changes in Net Position summarizes the major categories of transactions that caused the net position to change during the year.

Statement of Budgetary Resources

The Combined Statement of Budgetary Resources provides information about the funding and availability of budgetary resources and the status at the end of the reporting period. It is the only financial statement from which data is derived exclusively from budgetary accounts in the general ledger.

Data on the Combined Statement of Budgetary Resources is consistent with budget execution information on the Standard Form (SF) – 133 Report on Budget Execution and Budgetary Resources, with one exception. A line item, Offsetting Receipts, has been added to the Combined Statement of Budgetary Resources. Offsetting Receipts are used to offset budgetary authority and outlays at the Agency level and are presented in this statement for the purpose of reconciling outlay information in the Budget of the United States Government.

Statement of Financing

The Consolidated Statement of Financing shows the relationship between SBA's net obligations and net cost of operations. Net obligations are drawn from budgetary accounting, and net cost of operations are drawn from proprietary accounting by identifying key differences between the two amounts. The statement shows total resources used within the reporting period and adjustments to these resources based upon their usage to finance net obligations or net cost.

U. S. Small Business Administration

Consolidated Balance Sheet

as of September 30, 2004 and September 30, 2003

(Dollars in Thousands)		**2004**		**Restated 2003**
ASSETS				
Intragovernmental Assets				
Fund Balances with Treasury (Note 2)	**$**	**7,072,582**	$	2,798,677
Accounts Receivable (Note 5)				12,650
Advances (Note 8)				
Total Intragovernmental Assets		**7,072,582**		2,811,327
Assets - Public and Other				
Cash (Note 3)		**22,510**		5,331
Accounts Receivable (Note 5)		**39,457**		35,472
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)		**3,413,244**		3,532,595
Equipment and Internal Use Software (Note 7)		**19,789**		8,522
Total Assets - Public and Other		**3,495,000**		3,581,920
Total Assets	**$**	**10,567,582**	$	6,393,247
LIABILITIES				
Intragovernmental Liabilities				
Accounts Payable (Note 10)	**$**	**10,297**	$	13,739
Debt (Note 11)		**8,603,974**		6,706,379
Net Assets of Liquidating Funds Due to Treasury (Note 12)		**299,516**		407,109
Other (Note 14)		**567,073**		652,299
Total Intragovernmental Liabilities		**9,480,860**		7,779,526
Other Liabilities - Public				
Accounts Payable (Note 10)		**33,894**		49,648
Liabilities for Loan Guarantees (Note 4 and 6)		**2,524,052**		2,541,530
FECA Actuarial Liability (Note 13)		**28,436**		31,822
Other (Note 14)		**102,615**		108,091
Total Other Liabilities - Public		**2,688,997**		2,731,091
Total Liabilities	**$**	**12,169,857**	$	10,510,617
NET POSITION				
Unexpended Appropriations	**$**	**540,894**	$	573,974
Cumulative Results of Operations		**(2,143,169)**		(4,691,344)
Total Net Position	**$**	**(1,602,275)**	$	(4,117,370)
Total Liabilities and Net Position	**$**	**10,567,582**	$	6,393,247

The accompanying notes are an integral part of these statements.

See Note 19 for additional information related to restatement of 2003.

U. S. Small Business Administration

Consolidated Statement of Net Cost

for the periods ended September 30, 2004 and September 30, 2003

(Dollars in Thousands)	2004	Restated 2003
PROGRAMS		
Strategic Goal 1: Improve Economic Environment for Small Business		
Intragovernmental Gross Costs	$ 11,633	
Less: Intragovernmental Earned Revenue		
Intragovernmental - Net Costs	$ 11,633	$
Gross Costs with the Public	$ 38,991	
Less: Earned Revenue from the Public		
Net Costs with the Public	$ 38,991	$
Net Cost of Strategic Goal 1	$ 50,624	$
Strategic Goal 2: Increase Small Business Success by Bridging Competitive Opportunity Gaps		
Intragovernmental Gross Costs	$ 292,582	
Less: Intragovernmental Earned Revenue	136,746	
Intragovernmental - Net Costs	$ 155,836	$
Gross Costs with the Public	$ 1,483,911	
Less: Earned Revenue from the Public	282,748	
Net Costs with the Public	$ 1,201,163	$
Net Cost of Strategic Goal 2	$ 1,356,999	$
Strategic Goal 3: Restore Homes and Businesses Affected by Disaster		
Intragovernmental Gross Costs	$ 399,300	
Less: Intragovernmental Earned Revenue	166,096	
Intragovernmental - Net Costs	$ 233,204	$
Gross Costs with the Public	$ 268,676	
Less: Earned Revenue from the Public	204,658	
Net Costs with the Public	$ 64,018	$
Net Cost of Strategic Goal 3	$ 297,222	$
Costs Not Assigned to Strategic Goals		
Intragovernmental Gross Costs	$ 9,810	
Less: Intragovernmental Earned Revenue		
Intragovernmental - Net Costs	$ 9,810	$
Gross Costs with the Public	$ 32,882	
Less: Earned Revenue from the Public		
Net Costs with the Public	$ 32,882	$
Net Costs Not Assigned to Strategic Goals	$ 42,692	$
Net Cost of Operations	$ 1,747,537	$ 3,949,258

Note 15

The accompanying notes are an integral part of these statements.

See Note 19 for additional information related to restatement of 2003.

U. S. Small Business Administration

Consolidated Statement of Changes in Net Position

for the periods ended September 30, 2004 and September 30, 2003

(Dollars in Thousands)

	2004			Restated 2003		
	Cumulative Results of Operations	**Unexpended Appropriations**	**Total**	**Cumulative Results of Operations**	**Unexpended Appropriations**	**Total**
Beginning Net Position As Previously Restated				$ (2,697,964)	$ 954,633	$ (1,743,331)
Prior Period Adjustments				425,075	(273,500)	151,575
Beginning Net Position, as Adjusted	**$ (4,691,344)**	**$ 573,974**	**$ (4,117,370)**	$ (2,272,889)	$ 681,133	$ (1,591,756)
Budgetary Financing Sources						
Appropriations Received		**4,430,112**	**4,430,112**		1,982,908	1,982,908
Appropriations Transferred - In/Out (+/-)		**30,000**	**30,000**		(9,000)	(9,000)
Rescissions		**(8,040)**	**(8,040)**		(29,369)	(29,369)
Adjustment - Cancelled Authority		**(6,353)**	**(6,353)**		(5,978)	(5,978)
Other Adjustments	**(1,253)**	**(101,756)**	**(103,009)**		(30,581)	(30,581)
Appropriations Used	**4,377,043**	**(4,377,043)**		2,015,139	(2,015,139)	
Donations of Cash and Cash Equivalents	**426**		**426**	207		207
Other Financing Sources						
Transfers - In/Out Without Reimbursement (+/-)	**(102,741)**		**(102,741)**	(496,728)		(496,728)
Imputed Financing from Costs Absorbed by Others	**17,858**		**17,858**	19,063		19,063
Other - Current Year Liquidating Equity Activity (+/-)	**4,379**		**4,379**	(6,878)		(6,878)
Total Financing Sources	**$ 4,295,712**	**$ (33,080)**	**$ 4,262,632**	$ 1,530,803	$ (107,159)	$ 1,423,644
Less: Net Cost of Operations	**$ 1,747,537**		**$ 1,747,537**	$ 3,949,258		$ 3,949,258
Ending Net Position	**$ (2,143,169)**	**$ 540,894**	**$ (1,602,275)**	$ (4,691,344)	$ 573,974	$ (4,117,370)

Note 16

The accompanying notes are an integral part of these statements.

See Note 19 for additional information related to restatement of 2003.

U. S. Small Business Administration

Combined Statement of Budgetary Resources

for the periods ended September 30, 2004 and September 30, 2003

(Dollars in Thousands)

	2004			2003		
	Budgetary	**Non-Budgetary Financing**	**Total**	**Budgetary**	**Non-Budgetary Financing**	**Total**
BUDGETARY RESOURCES						
Budget Authority						
Appropriations Received	**$ 4,430,112**	**$**	**$ 4,430,112**	$ 1,982,908	$	$ 1,982,908
Borrowing Authority		**2,203,099**	**2,203,099**		1,158,196	1,158,196
Net Transfers (+/-)	**30,000**		**30,000**			
Other						
Unobligated Balance						
Brought Forward October 1	**415,697**	**1,769,202**	**2,184,899**	711,921	6,049,860	6,761,781
Net Transfers (+/-)				(9,000)		(9,000)
Spending Authority from Offsetting Collections						
Earned	**365,014**	**5,222,293**	**5,587,307**	487,232	2,963,617	3,450,849
Change in Unfilled Customer Orders	**(15,294)**	**(21,251)**	**(36,545)**	(8,898)	(12,930)	(21,828)
Recoveries of Prior Year Obligations	**42,994**	**108,998**	**151,992**	125,914	85,615	211,529
Permanently Not Available	**(241,346)**	**(284,147)**	**(525,493)**	(461,404)	(5,567,309)	(6,028,713)
Total Budgetary Resources	**$ 5,027,177**	**$ 8,998,194**	**$ 14,025,371**	$ 2,828,673	$ 4,677,049	$ 7,505,722

(Dollars in Thousands)

	2004			2003		
STATUS OF BUDGETARY RESOURCES	**Budgetary**	**Non-Budgetary Financing**	**Total**	**Budgetary**	**Non-Budgetary Financing**	**Total**
Obligations Incurred	**$ 4,639,787**	**$ 3,009,311**	**$ 7,649,098**	$ 2,412,968	$ 2,907,847	$ 5,320,815
Unobligated Balances, Available						
Apportioned - Currently Available	**185,675**	**2,457,091**	**2,642,766**	287,327	1,236,696	1,524,023
Exempt from Apportionment				365		365
Unobligated Balances, Not Available	**201,715**	**3,531,792**	**3,733,507**	128,013	532,506	660,519
Total Status of Budgetary Resources	**$ 5,027,177**	**$ 8,998,194**	**$ 14,025,371**	$ 2,828,673	$ 4,677,049	$ 7,505,722

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS	**Budgetary**	**Non-Budgetary Financing**	**Total**	**Budgetary**	**Non-Budgetary Financing**	**Total**
Obligated Balance, Beginning of Period	**$ 473,939**	**$ 139,831**	**$ 613,770**	$ 523,869	$ 207,090	$ 730,959
Obligated Balance, End of Period						
Accounts Receivable				(3,264)	(34,862)	(38,126)
Unfilled Customer Orders from Federal Sources	**(233)**	**(106,732)**	**(106,965)**	(233)	(127,983)	(128,216)
Undelivered Orders	**336,242**	**366,232**	**702,474**	382,886	261,053	643,939
Accounts Payable	**77,207**	**23,593**	**100,800**	94,550	41,623	136,173
Total Obligated Balance, End of Period	**413,216**	**283,093**	**696,309**	473,939	139,831	613,770
Outlays						
Disbursements	**4,660,782**	**2,813,163**	**7,473,945**	2,350,241	2,923,581	5,273,822
Collections	**(352,982)**	**(5,257,156)**	**(5,610,138)**	(491,596)	(2,984,774)	(3,476,370)
Subtotal	**4,307,800**	**(2,443,993)**	**1,863,807**	1,858,645	(61,193)	1,797,452
Less: Offsetting Receipts		**230,309**	**230,309**		299,819	299,819
Net Outlays	**$ 4,307,800**	**$ (2,674,302)**	**$ 1,633,498**	$ 1,858,645	$ (361,012)	$ 1,497,633

Note 17

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Consolidated Statement of Financing

for the periods ended September 30, 2004 and September 30, 2003

(Dollars in Thousands)	2004	Restated 2003
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 7,649,098	$ 5,320,815
Less: Spending Authority from Offsetting Collections and Recoveries	5,702,754	3,640,550
Obligations Net of Offsetting Collections and Recoveries	1,946,344	1,680,265
Less: Offsetting Receipts	230,309	299,819
Net Obligations	$ 1,716,035	$ 1,380,446
Other Resources		
Transfers In (Out)	(102,741)	(496,728)
Imputed Financing	17,858	19,063
Other Financing Sources	4,379	(6,878)
Net Other Resources Used to Finance Activities	$ (80,504)	$ (484,543)
Total Resources Used to Finance Activities	$ 1,635,531	$ 895,903
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	$ (80,641)	$ 12,025
Resources that Fund Expenses Recognized in Prior Periods	667	
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	5,221,793	2,963,617
Offsetting Receipts	230,309	299,819
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(2,751,423)	(2,691,952)
Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	1,749	1,323
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 2,622,454	$ 584,832
Total Resources Used to Finance the Net Cost of Operations	$ 4,257,985	$ 1,480,735
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Change in Annual Leave Liability	$ (568)	$ 650
Change in Contingent Liability	(800)	
Upward/ Downward Reestimates of Credit Subsidy Expense	(2,527,704)	2,418,283
Change in Revenue Receivable from Public	1,618	7,963
Other - Current Year Liquidating Equity Activity (+/-)	(4,379)	6,878
Provision for Losses on Estimated Guarantees	1,736	10,092
Change in Unfunded Employee Benefits	(3,605)	671
Total Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ (2,533,702)	$ 2,444,537
Components Not Requiring or Generating Resources		
Depreciation or Amortization	3,074	3,018
Bad Debt Expense - Noncredit Reform	20,180	20,968
Total Components of Net Cost that will Not Require or Generate Resources	$ 23,254	$ 23,986
Total Components of Net Cost of Operations Not Requiring or Generating Resources in the Current Period	$ (2,510,448)	$ 2,468,523
Net Cost of Operations	$ 1,747,537	$ 3,949,258

Note 18

The accompanying notes are an integral part of these statements.

See Note 19 for additional information related to restatement of 2003.

Note 1. Significant Accounting Policies

A. Basis of Accounting and Presentation

These consolidated financial statements have been prepared to report the financial position, net cost of operations, changes in net position, budgetary resources and reconciliation between net budgetary expenditures and net costs of the U.S. Small Business Administration (SBA). These statements are required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from the accounting records of SBA maintained in accordance with generally accepted accounting principles (GAAP) of the United States Government as promulgated by the Federal Accounting Standards Advisory Board (FASAB).

The statements reflect transactions recorded on both a proprietary accrual accounting basis, and a budgetary obligation basis, in accordance with concepts and guidance provided by the Office of Management and Budget (OMB) in Circular A-11, "Preparation, Submission, and Execution of the Budget." Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting recognizes legal obligation of funds often in advance of the proprietary accrual, and facilitates compliance with legal constraints and controls over the use of Federal funds.

B. Use of Estimates

The preparation of the financial statements in accordance with GAAP of the United States Government requires Agency management to make assumptions and estimates directly affecting the amounts reported in the financial statements. Actual results may differ from those estimates.

Estimates for credit program receivables and liabilities contain assumptions of future results that have a significant impact on the financial statements. These assumptions include loan disbursement, repayment, delinquency, default and recovery rates. Actual rates in the future may differ significantly from the assumptions made at the time the financial statements were prepared. Minor adjustments to any of these assumptions may create significant changes to the estimate.

The Agency recognizes the sensitivity of the changes in assumptions and the impact that the projections can have on estimates. Econometric modeling is used for the 7(a) and 504 Programs to improve the statistical accuracy of the projection of future cash flows. Near term cash flows for the Small Business Investment Company (SBIC) Program reflect the best available estimates, at this time, of defaults and recoveries. Disaster loan models utilize individual loan data to optimize the models forecasting. The assumptions used for current year and prior year statements are based on the best information available at the time the estimates were prepared. In addition, all models and assumptions are updated periodically to reflect changing conditions.

Reestimates included in these financial statements may differ from the reestimates submitted with the President's budget in February, 2005. These may differ because the reestimates in the budget include the President's most recent economic assumptions, which are not available in time for these financial statements. The revised economic assumptions include economic factors such as gross domestic product (GDP) and unemployment rates that are included in the 7(a) and 504 models. The changed factors could affect 7(a) and 504 default and prepayment forecasts. In addition, changes in interest rate forecasts could affect SMG earnings forecast. The revised economic assumptions will also include the interest rate used for the present value discount calculation for cohorts for which an interest rate reestimate is being completed this year. Although these factors could result in different subsidy costs, the direction and magnitude of these changes are not known at this time. Finally, the estimates for the financial statements were based on annualized cash flows through September 30, 2004. Reestimates for the budget will include actual cash flows for FY 2004.

C. Reporting Entity

SBA was created as an independent Federal Agency by the Small Business Act of 1953. Its mission is to maintain and strengthen the Nation's economy by aiding, counseling, assisting and protecting the interests of small business and to help businesses and families recover from disasters.

The 7 (a) Business Loan, 504 Development Company and SBIC Programs are SBA's major credit programs to assist small business. SBA's non-credit programs providing small business assistance include Surety Bond Guarantees (SBG), Business Development for minority firms, Government Contracting assistance and Entrepreneurial Development assistance to counsel and train small business entrepreneurs. In addition, SBA's Advocacy Program promotes the interests of small business in government legislative and regulatory forums. SBA's Disaster Loan Program provides assistance to victims of physical and economic disasters such as earthquakes, floods and hurricanes by extending direct loans to individuals and businesses.

SBA operates through the execution of a congressionally approved budget that funds its programs. SBA's budget consists of annual, multi-year and no-year appropriations which fund salaries and expenses and the various program activities.

Under the aegis of the Federal Credit Reform Act of 1990 (FCRA), as amended, SBA utilizes program and financing accounts to record events for its business direct and guaranteed loans and disaster loans, and utilizes Liquidating Accounts for its Pollution Control Equipment Guarantees and pre-FY 1992 business and disaster loans. A revolving fund is used to record SBG accounting events and administrative funds are used to account for salaries and expenses of the Agency and its Inspector General.

Finally a trust fund, funded by donations made by non-Federal entities, is used to record accounting events for business assistance.

D. Budgets and Budgetary Accounting for Loan Programs

SBA's loan disbursements are financed by a combination of two sources - one for the long term cost of the loan (subsidy cost) and another for the remaining non-subsidized portion of the loan. Congress provides one-year, multi-year and no-year appropriations to cover the estimated long term costs of SBA loan programs. The long term costs are defined as the net present value of the estimated cash outflows associated with the loans, less the estimated cash inflows. The portion of each loan disbursement that does not represent long term cost is financed under permanent indefinite authority to borrow funds from the U.S. Department of Treasury (Treasury). Congress also limits the dollar amount of obligations that can be made for direct loans and loan guarantees in its annual appropriation bill.

A permanent indefinite appropriation is available to finance any increase in the estimated subsidy costs (reestimates) that occurs after the year in which a loan is disbursed. Reductions in the estimated long term subsidy cost arising from reestimates are returned to Treasury and are unavailable to the Agency. Modification of direct loans or loan guarantees requires budget authority be appropriated for the additional cost if not available from existing appropriations or other budgetary resources.

E. Fund Balances with Treasury and Cash

Fund Balances with Treasury and cash consist of appropriated, financing, liquidating, revolving and trust funds. These funds are available to make expenditures and pay liabilities. Fund balances also include expired year amounts which are unavailable for obligation. Cash receipts and disbursements are processed by Treasury (See Notes 2 & 3).

F. Accounts Receivable

Accounts Receivable - Intragovernmental are reimbursements due from other Federal agencies and funds. In addition, SBA records interfund receivables and payables between its program and financing funds for its subsidy reestimates that are eliminated in its consolidated statements.

Accounts Receivable that are not intragovernmental primarily represent amounts due from participating financial institutions for guarantee fees. The balance in the Salaries and Expenses fund represents receivables due from Agency employees or vendors for net credits from various transactions (See Note 5).

SBA has determined uncollectible or unrecoverable accounts receivable are not significant and does not provide an allowance. The historic immateriality of losses is due to stringent collection policies and the ability to offset against the lender's share of collections, payments to employees and payments to vendors.

G. Credit Program Receivables and Related Foreclosed Property

Reporting requirements for direct loan obligations made after FY 1991 are governed by the FCRA. The FCRA requires the subsidy costs be reported on a present value basis. The subsidy cost is the present value of the estimated cash outflows over the life of the loans minus the present value of the estimated cash inflows, discounted at the interest rate of marketable Treasury securities with a similar maturity term. The FCRA also requires the present value of subsidy cost be recognized as a cost in the year that the loan is disbursed. Direct loans are reported net of an allowance for subsidy at the present value.

Loans obligated prior to the FCRA are recorded at book value with an allowance for uncollectible amounts.

SBA also guarantees loans made by participating lenders in its Business Loan, 504 Development Company and Small Business Investment Company programs. Upon default, these guaranteed loans are purchased by SBA and treated as loan receivables. The reporting requirements for these loan receivables are also governed by the FCRA and they are reported net of an allowance for subsidy determined in a similar manner as SBA's direct loans (See Note 6).

SBA advances payments semiannually to the Federal Financing Bank (FFB) for loans guaranteed under Section 503 of the Small Business Act. The advances are liquidated by receipt of the installment payments on loans made by state and local development companies. To the extent that those installments may not repay advances, balances from development companies that remain collectible are reported as credit programs.

Advances are similarly made to honor SBA's timely payment requirement of principal and interest due for debentures in SBA's Section 504 and SBIC Programs. These advances are reported as credit program receivables.

Foreclosed property acquired as a result of defaulted loans or guarantees is valued at the net realizable value. The net realizable value is reevaluated annually by SBA field managers. For loans made after FY 1991 under FCRA, the estimated losses on the sale of collateral are included in the forecasted cash flow used to determine the credit subsidy allowance.

H. Equipment and Internal Use Software

Computer-related equipment and other equipment (non computer-related) are capitalized at full cost, if the initial unit acquisition cost is $50,000 or more and service life is at least two years; otherwise, it is expensed when purchased. Computer-related equipment is depreciated using the straight-line method over three years. Other equipment is depreciated using the straight-line method over five years.

Software for internal use, whether it is internally developed, contractor developed, or commercial off-the-shelf (COTS), is capitalized at cost provided that the initial unit acquisition cost is $250,000 or more and the service life is at least two years. The costs subject to capitalization are all the direct and indirect costs incurred (whether SBA or contractor developed or COTS purchased), including overhead. Software development begins after the planning phase of the system project when management has decided to go ahead with software implementation. Data conversion costs during implementation and post implementation costs for operation and maintenance of the system are not included in software development costs to be capitalized. Software for internal use is depreciated using the straight-line method over its useful life, not to exceed five years. The depreciation of capitalized costs begins when the system is put into operation. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities. Costs that do not meet the capitalization criteria are expensed when incurred (See Note 7).

I. Accounts Payable

Accounts Payable – Intragovernmental are payables due to other Federal agencies and funds that will be liquidated during the next operating cycle. SBA records interfund receivables and payables between program and financing funds for its subsidy reestimates. Additionally, SBA recognizes as accounts payable unpaid amounts to Federal vendors for goods and services provided as of the balance sheet date.

Accounts Payable – Public are payables due to non-Federal entities that will be liquidated during the next operating cycle. Included in this liability are payables to banks and vendors (See Note 10).

J. Debt

Borrowings payable to Treasury result from loans provided by Treasury to fund a portion of SBA's credit reform financing accounts activity. SBA is required to make periodic principal payments to Treasury based on the collections of loans receivable.

Borrowings payable to FFB are the result of its financing of SBA Section 503 Debentures issued prior to 1988. SBA, as the servicing agent, collects on the underlying loan receivables and repays its debt to FFB (See Note 11).

K. Net Assets of Liquidating Fund Due to Treasury

Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities of the Liquidating Funds. SBA returns to Treasury each year the portion of this balance that has been converted to cash (See Note 12).

L. Liability for Loan Guarantees

There are two components to the Agency's liability for guaranteed loans: liabilities for losses on pre-FY 1992 loans; and liabilities on post-FY1991 loans made under the FCRA legislation. For pre-FY 1992 loans, the amount is an estimate of losses on guarantees outstanding based on historical experience. For post-FY1991 loans, the liability is based on the present value of future cash flows related to the guarantees in force as of year end (See Note 6-L).

M. Contingencies

SBA is a party in various administrative proceedings, legal actions, environmental suits and claims brought against the Agency. In the opinion of SBA management and legal counsel, the ultimate resolution of these proceedings, actions, suits and claims will not materially affect the financial position or results of SBA operations. The likelihood of loss to SBA ranges from remote to a reasonably possible amount of $4.2 million. These activities will be monitored and recognized if a loss becomes probable.

N. Leave

A liability for employee annual leave is accrued as it is earned and reduced as leave is taken. Each year the balance of accrued annual leave is adjusted to reflect current pay rates as well as forfeited "use or lose" leave. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future appropriations.

Sick leave and other types of non-vested leave are expensed as taken.

O. Employee Health and Life Insurance Benefits

SBA employees are eligible to participate in the contributory Federal Employees Health Benefit (FEHB) and the Federal Employees Group Life Insurance (FEGLI) programs. SBA matches a portion of the employee contributions to each program. SBA's matching contributions are recognized as current operating expenses.

P. Employee Pension Benefits

SBA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Most employees hired after December 31, 1983 are covered by FERS. These systems provide benefits upon retirement and in the event of death, disability, or other termination of employment, and may also provide pre-retirement benefits. They may also include benefits to survivors and dependents, and they may contain early retirement or other special features. The CSRS and FERS retirement funds are administered by the Office of Personnel Management (OPM).

For CSRS, SBA contributes 7.0% of the employee’s gross earnings in addition to the 7.0% withheld from the employee. For FERS, SBA withholds .8% of gross earnings and matches the withholding with a 10.7% employer contribution. SBA contributions to CSRS and FERS are recognized as current operating expenses. FERS participants are also covered under the Federal Insurance Contribution Act (FICA) and are subject to FICA withholdings. SBA makes matching contributions for FICA, which are recognized as current operating expenses.

Federal employee benefits also include the Thrift Savings Plan (TSP) where CSRS participants may contribute up to 9.0% of their gross pay to the TSP without any Agency matching contribution. FERS participants may contribute up to 14% of their gross pay to the TSP. For FERS participants, SBA contributes 1.0% of basic pay and matches any employee contributions dollar for dollar for the first 3.0% of pay, and 50 cents on the dollar for the next 2.0% of pay. The maximum limit that either FERS or CSRS employees may contribute to the TSP is $13,000 annually. SBA contributions to the TSP are recognized as current operating expenses.

SBA recognizes the full cost of providing future CSRS and FERS pension benefits at the time the employees' services are rendered. The cost of pension benefits represents the actuarial present value of future benefits attributed to services rendered by covered employees during the accounting period, net of the amounts contributed by these employees. In addition, OPM finances the excess of total pension expense over the amount contributed by the Agency and its employees. SBA recognizes the amount financed by OPM as current year operating expenses and an imputed financing source. SBA does not report in its financial statements FERS or CSRS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

Q. Other Retirement Benefits

SBA employees eligible to participate in the FEHB and the FEGLI may continue to participate in these programs after their retirement. SBA recognizes a current operating expense for the future cost of these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. This ORB expense is financed by OPM; SBA recognizes the amount financed by OPM as current year operating expense and an imputed financing source.

R. Revenues and Other Financing Sources

SBA's revenues and other financing sources include appropriations used, earned revenue, donations, imputed financing sources and non-expenditure transfers.

SBA receives the majority of the funding needed to support its operations through congressional appropriations. The Agency receives one year, multi-year and no year appropriations that may be used, within statutory limits, for operating and program expenditures. Appropriations are considered used when goods or services financed by an appropriation are provided, regardless of when paid. Appropriations received and used are reported in the Consolidated Statement of Changes in Net Position.

Earned revenue results from exchange transactions that benefit both parties. SBA has earned revenues such as interest on its loan portfolios and interest on fund balances. These revenues are presented on the Consolidated Statement of Net Cost as reductions to operating costs.

Donations are treated as non-exchange revenue and reported in the Consolidated Statement of Changes in Net Position.

Imputed financing sources are operating costs of SBA which are paid through funds appropriated to other Federal entities. These include items such as additional charges by OPM for employee pension benefits and post-employment benefits for former employees. The imputed financing source is reported in the Consolidated Statement of Changes in Net Position while the associated cost is reflected in the Consolidated Statement of Net Cost.

Non-expenditure transfers of appropriated amounts or assets without reimbursement include items such as transfers to Treasury of downward subsidy reestimates and unobligated balances from liquidating accounts. These transfers are included in the Consolidated Statement of Changes in Net Position.

S. Accounting Changes

SBA accrues interest receivable (and recognizes revenue) as of the report date for loans not delinquent and loans delinquent less than 91 days. Prior to FY 2004, for Credit Reform loans, SBA would record a deferral of accrued interest for loans delinquent 1 to 90 days in a deferred interest account, with a corresponding decrease in interest revenue. This treatment was based on Federal accounting guidance provided years ago in a "case study." Per SBA's review of the most recent case studies, there was not any justification to continue this treatment. In FY 2004 SBA stopped deferring interest delinquent 1 to 90 days for Credit Reform loans and the prior year statements were restated.

SBA reports its costs consistent with the Agency's goals. The strategic goals this year were restructured from the strategic goals in the prior year. In FY 2004 Procurement Assistance programs have been included in the economic environment goal and another goal was added (Goal 4). As a result, the Statement of Net Cost for the current year is not comparable to the prior year and the prior year costs are presented in summary without the subtotals for the prior year strategic goals.

Note 2. Fund Balance with Treasury

(Dollars in Thousands)

Fund Balances with Treasury at the end of FY 2004 and 2003 consisted of the following:

	FY 2004	FY 2003
Entity Fund Balances		
Trust Fund	$488	$440
Liquidating Funds	174,936	245,606
Financing Funds	6,271,977	1,909,033
Revolving Funds	22,948	22,978
Appropriated Funds	602,233	620,620
Total Fund Balance	**$7,072,582**	**$2,798,677**
Status of Fund Balances with Treasury		
Unobligated Balance		
Available	$2,642,766	$1,524,388
Unavailable	3,733,507	660,519
Obligated Balance Not Yet Disbursed	696,309	613,770
Total Fund Balance	**$7,072,582**	**$2,798,677**

Fund Balance with Treasury is an entity asset maintained with Treasury. The monies are available to pay current liabilities and finance loan programs. SBA has the authority to disburse funds through Treasury, which processes cash receipts and disbursements on the Agency's behalf.

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts not apportioned for obligation during the current fiscal year and expired appropriations no longer available for new obligations. Obligated balances not yet disbursed include reimbursements, other income earned, undelivered orders and expended authority-unpaid.

An immaterial difference exists between SBA's recorded Fund Balances with Treasury and Treasury's records. Normally it is the Agency's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

Note 3. Cash

(Dollars in Thousands)

Cash at the end of FY 2004 and 2003 consisted of the following:

Cash

	FY 2004 Entity Assets	FY 2003 Entity Assets
Cash in Transit	$3,328	$5,331
Undeposited Collections	19,182	
Total	**$22,510**	**$5,331**

Undeposited collections are amounts under the control of the SBA at field offices. Cash in Transit are collections held by SBA's fiscal agents, such as lockboxes or Colson Services, at the reporting date.

Note 4. Master Reserve Fund

The Small Business Secondary Market Improvement Act of 1984, P.L. 98-352 (Improvement Act) provided statutory authority for the 7(a) secondary market, the pooling of 7(a) loans, the central registration of secondary market loans and improved disclosure of 7(a) secondary market loans. The Improvement Act also provided for SBA's regulation of brokers and dealers operating in the 7(a) secondary market and for reporting on secondary market results to Congress. The 7(a) secondary market has approximately $14 billion of outstanding investments held by 7(a) secondary holders in FY 2004 compared to $13 billion in FY 2003.

It was the intent of Congress in the Improvement Act that the 7(a) secondary market pooling program operate at no cost to the Federal taxpayer. The Master Reserve Fund (MRF), maintained by SBA's fiscal agent as part of its administration of the 7(a) secondary market program, was created to fulfill this intent. In order for the 7(a) secondary market pooling program to have no cost to the Federal taxpayer, the collections from the underlying loans and the earnings of the MRF must be adequate to fund SBA's guarantee of timely payment of principal and interest to the 7(a) secondary market investors throughout the portfolio liquidation period and to pay expenses of the MRF trustee and investment advisor. If the MRF is not sufficient, SBA is liable to secondary market investors. With this in mind, in November 2002, SBA agreed with the OMB to include the MRF under the requirements of the FCRA of 1990, beginning with the FY 2005 budget. Since then, the program has been referred to as the Secondary Market Guarantee Program (SMG Program). SBA also agreed to reestimate the cost of the SMG Program annually beginning in FY 2003 (for the FY 2005 budget). SBA will account for the SMG Program within its Business Loan Program and Business Guarantee Financing Accounts, and will begin cohort accounting in FY 2005.

The secondary market program provides for the pooling of loans having terms that vary within a range prescribed by SBA and the sale of the pools to secondary market investors. The pool's investments have fixed terms, equivalent to the term of the longest loan in the pool. Various factors influence SMG adequacy, including the interest rate paid to investors, the "spread" of maturities in the loan pools, the occurrence of loan prepayments and delinquencies, the amount of interest earned on the float on monthly loan payments and prepayments, the holdback of the principal portion of the first loan payment, the pattern of liquidation of investments in 7(a) secondary market pools, and the earnings rate on MRF short and long term investments. Approximately 30 percent of the MRF is invested in short-term (6 month) Treasury securities and repurchase agreements and 70 percent in long-term Treasury securities and Treasury-guaranteed money market funds.

During FY 2004 and FY 2003, SBA conducted a thorough analysis of the SMG adequacy. This analysis concluded the SMG will not be sufficient after 2017 to liquidate the secondary market portfolio that existed at FY 2004 and FY 2003 yearend. Based on this analysis, a subsidy of $189 million was needed to fully liquidate the portfolio as of

September 30, 2003. The analysis showed $123 million was attributed to FY 2002 and prior years and $66 million was attributed to FY 2003 as restated. As of FY 2004 yearend, SBA estimates that a reduction in SMG subsidy of $4 million is appropriate to properly value the SMG liability. SBA recognized these amounts as FY 2004 and FY 2003 subsidy expense on its Consolidated Statement of Net Costs and established a liability for Secondary Market Guarantee on its FY 2004 and FY 2003 Consolidated Balance Sheet. In addition the SBA recognized $4.6 million of interest on the FY 2003 reestimate as subsidy expense in FY 2004.

SBA expects to make changes to the 7(a) SMG Program which will provide additional SMG income resulting in a zero subsidy rate. These include the pass-through of partial prepayments and the principal portion of the first payment on new loans. These changes will be effective with FY 2005 processing of new 7(a) pools for sale in the secondary market. This will satisfy the Congressional intent that the program should not impose any additional cost to the Federal taxpayers or liability on the government.

The composition of the MRF for FY 2004 and FY 2003 is shown in the following table. A reconciliation of the change in MRF assets during FY 2004 and FY 2003 is also shown.

Master Reserve Fund Assets
(Dollars in Thousands)

Short Term Securities	**FY 2004**	**FY 2003**
Treasury Bills	$155,312	$155,616
Repurchase Agreements	287,511	231,000
Total Short Term Securities	$442,823	**$386,616**
Long Term Securities		
Money Market Funds	$ 27,577	$26,848
Treasury Bonds	184,961	123,719
Treasury Notes	757,109	709,935
Net Interest	13,219	12,672
Total Long Term Securities	$ 982,866	**$873,174**
Net Assets	$1,425,689	**$1,259,790**

Reconciliation of MRF Assets FY 2004
(Dollars in Thousands)

	FY 2004	FY 2003
Beginning Net Assets	**$1,259,790**	**$1,213,383**
Receipts		
Regular Loan Payments	1,296,744	1,219,237
Loan Prepayments	1,275,835	961,202
Payments Received to Cover Defaults	535,900	564,800
Other Receipts		(9,850)
Earned Income	55,064	55,246
Net Realized Gain (Loss)	309	(1,028)
Total Receipts	**$3,163,852**	**$2,789,607**
Disbursements		
Regular Payments to Investors	$1,184,360	$1,215,445
Loan Prepayments	1,275,835	961,202
Defaults	535,900	564,800
Expenses	1,858	1,753
Total Disbursements	**$2,997,953**	**$2,743,200**
Ending Net Assets	**$1,425,689**	**$1,259,790**

Note 5. Accounts Receivable

(Dollars in Thousands)

Accounts receivable are displayed by type and consisted of the following at the end of FY 2004 and 2003:

	FY 2004		Restated FY 2003	
	Intra-governmental	Public	Intra-governmental	Public
Subsidy Receivable from Program Fund	$2,114,474	$	$4,642,178	$
Interest Receivable from Treasury			12,643	
Other Interfund Receivables			25,880	
Overpayment to Secondary		1,747		401
Guarantee Fees Receivable		31,080		26,702
Examination Fees – SBIC		76		76
Administrative Receivables		79		81
Refunds		3,621		4,288
Revenue Receivable		1,038		1,587
Receivables Due from Lenders		1,786		2,288
Receivable Due from Purchasers Asset Sales		30		49
Reimbursable			1,687	
Sub Total Before Eliminations	**$2,114,474**	**$39,457**	**$4,682,388**	**$35,472**
Eliminations –Subsidy Receivable	(2,114,474)		(4,642,178)	
Eliminations – Interfund Receivable			(27,560)	
Balance Sheet Total	**$**	**$39,457**	**$12,650**	**$35,472**

Other interfund receivables result from adjustments to cash balances for individual year's appropriations in the Agency's credit programs. SBA's credit program appropriations are received on an annual, multiyear and no-year basis, but the Agency's loan accounting system does not separately account for the use of these appropriation types as new loans and guarantees are processed. Adjustments to general ledger cash balances are therefore made as part of the monthly accounting cycle in order to properly record the use of annual, multi year and no-year appropriations. These amounts are eliminated in the consolidated statements as the adjustments effect interagency fund activity and balances.

SBA has determined uncollectible or unrecoverable accounts receivable are not significant and does not provide an allowance. The historic immateriality of losses is due to stringent collection policies and the ability to offset against the lender's share of collections, payments to employees or vendors.

Note 6. Credit Program Receivables and Related Foreclosed Property

A. Loan Program Descriptions

The SBA operates the following loan and loan guarantee program funds:

(1) Business, Direct
(2) Disaster, Direct
(3) Business, Guarantee
(4) Pollution Control, Guarantee

SBA administers several loan guarantee and direct lending programs providing small businesses with financial assistance not otherwise available in the financial markets. Under its business loan guarantee programs, SBA guarantees loans made by banks and other lending institutions to small businesses. These loan guarantee programs include the 7(a) General Business Loan Guarantee Program, the Section 504 Certified Development Company Debentures Loan Guarantee Program, the Small Business Investment Company Debentures and Participating Securities programs and the Microloan Guarantee Program. The original Pollution Control Loan Guarantee Program ceased guaranteeing new loans in 1988; since 1989, those loans have been guaranteed under the 7(a) Program.

SBA's primary direct loan program is the Disaster Program, which makes direct loans to disaster victims under five categories: (1) loans for homes and personal property, (2) physical disaster loans to businesses of any size, (3) pre-mitigation disaster loans to businesses, (4) economic injury loans to small businesses without credit available elsewhere, and (5) economic injury loans to eligible businesses affected by essential employees called up to active duty in the military reserves. The maximum interest rate is 4 percent for applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere. The Microloan Program provides direct loans to nonprofit intermediaries, who use these funds to make loans up to $35,000 to eligible small businesses.

The FCRA requires all agencies budget for the credit subsidy cost of credit programs by estimating net present value of cash flows discounted at the government's cost of borrowing. OMB Circular A-11 provides direction on the preparation of credit program cost estimates. Loans originated during the same fiscal year are assigned to a "cohort", the credit subsidy cost of which is funded by appropriations for that year.

Using special data collection techniques and analyses, SBA analyzes loan, accounting and other data to estimate the cash flows used in the calculation of the subsidy cost for each program. SBA has created estimation models that incorporate actual and estimated data on loan maturity, fees, grace periods, interest rate differentials, delinquencies, default or purchase rates, recoveries, prepayments, borrower characteristics and macroeconomic variables.

The credit subsidy rate is the credit subsidy cost expressed as a percent of the dollar amount of loans expected to be disbursed or loan guarantees committed for that cohort year. It consists of the sum of the components for the interest subsidy costs, default costs (net of recoveries), fees and other offsetting collections and other costs. The credit subsidy rate may be affected by actual and expected economic conditions, new legislation, changes in credit origination and servicing practices, and particular estimation methodologies and assumptions because it reflects anticipated loan performance for each cohort in each program.

Direct loan obligations or loan guarantee commitments made after FY 1991 are governed by FCRA and reported as credit reform loans. FCRA provides the credit subsidy cost, equal to the credit subsidy rate multiplied by the loan disbursements, be recognized and reported as an expense in the year in which the direct loans or loan guarantees are disbursed. Subsidy costs are reestimated annually after disbursement. Reestimates that increase subsidy expenses result in SBA receiving additional funds from the Treasury; reestimates that decrease subsidy expenses result in SBA transferring funds to the Treasury. For scheduling purposes, SBA may prepare these reestimates using information available as of March 31, annualized to September 30.

Direct loan obligations and guarantee loan commitments made prior to FY 1992 are reported as liquidating loans (i.e., pre-credit reform loans). The related credit program receivables for direct and defaulted guaranteed loans are reported net of an allowance for loan losses, which reflect estimates of what the Agency does not expect to collect or recover. These allowances are unfunded. They are based upon historical experience, current market conditions and, in some circumstances, an analysis of individual assets. SBA establishes a 100% allowance for liquidating loans past due more than 180 days.

Interest receivable is comprised of accrued interest on accounts and loans receivable, and purchased interest related to defaulted guaranteed loans. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued to non-performing loans (those in excess of 90 days delinquent). Purchased interest is carried at cost; however, a 100% loss allowance is established for all purchased interest on non-performing liquidating loans.

Foreclosed property is comprised of real and business-related property acquired through foreclosure on loans and defaulted loan guarantees. Property held in inventory is appraised every year and reported at the appraised value.

Information pertaining to loans receivable, loan guarantees, liability for loan guarantees, credit subsidy costs, and administrative costs associated with the loans and loan guarantees is provided for liquidating and credit reform loans in the following sections.

B. Direct Loans Obligated Prior to FY 1992

(Dollars in Thousands)

Direct Liquidating Loans Receivables net are as follows:

FY 2004			
Liquidating Loan Program	**Business**	**Disaster**	**Total**
Loans Receivable, Gross	$32,149	$42,674	**$74,823**
Interest Receivable	12,951	339	**13,290**
Allowance for Loan Losses	(15,385)	(5,082)	**(20,467)**
Foreclosed Property	5,392		**5,392**
Value of Assets Related to Direct Loans	**$35,107**	**$37,931**	**$73,038**

C. Direct Loans Obligated After FY 1991

(Dollars in Thousands)

Direct Credit Reform Loans Receivables net are as follows:

FY 2004			
Credit Reform Program	**Business**	**Disaster**	**Total**
Loans Receivable, Gross	$133,299	$3,037,809	**$3,171,108**
Interest Receivable	1,532	18,241	**19,773**
Foreclosed Property		863	**863**
Allowance for Subsidy Cost (Present Value)	(42,959)	(613,278)	**(656,237)**
Net Present Value of Assets Related to Direct Loans	**$91,872**	**$2,443,635**	**$2,535,507**

D. Total Amount of Direct Loans Disbursed Post-1991

(Dollars in Thousands)

Total Direct Credit Reform Loans disbursed by program in the current year and the prior year are as follows:

	FY 2004	FY 2003
Credit Reform Programs		
(1) Business	$20,595	$23,123
(2) Disaster	465,152	686,149
Total	**$485,747**	**$709,272**

Disaster program disbursements are extremely irregular due to the variability of disaster activity.